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Privateoffice Weekly Market Update – 21st August 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

City desks are usually quiet this time of year but there was still plenty of market moving news around.

Major Issues

China-US tensions

On **Monday** Donald Trump issued an executive order forcing China's ByteDance to sell or spin off its US TikTok business within 90days. He cited "credible evidence" that ByteDance might take action that threatens to impair the national security of the US.
On **Tuesday** Donald Trump told reporters that he had cancelled the US-China trade talks and blamed Beijing's handling of the coronavirus.
On **Thursday** morning the Chinese commerce ministry announced that the US and China would hold trade talks in the coming days. Several days of declining virus cases please investors on **Thursday**. The US weekly jobless were claims were ignored as the focus turned to falling continuing claims and the direction of the virus.

Covid-19

On **Monday** the finance ministers of the G7 advanced economies held a teleconference to discuss their response to the pandemic. They said that they will continue to coordinate their timely and effective actions and have noted the improvement in economic conditions.

The United Kingdom

UK Equities

Fears of lockdowns and travel restrictions were hitting shares in airlines and hotel operators on **Monday**. Strong housing numbers lifted building companies and higher commodity prices helped mining stocks. Property companies were under pressure as there were signs that office life will not be the same after the pandemic. Schroders and PWC have both said that most of their staff will continue to work remotely after the pandemic has passed. Both Land securities and British Land fell 2.5%. There was also bad news for consumer related stocks as data showed that high street footfall was down 40% compared to a year earlier. A household finance survey showed some worrying trends. Households are spending less as job insecurity remains high.
The FT100 closed 0.81% higher at 6139.
On **Tuesday** M&S was the latest retailer to announce job cuts. The FT100 continued to struggle with the strong currency which negatively affects US earnings of the large international stocks such as Glaxo, Unilever and BAT. The FT100

closed 0.83% lower at 6076, the lowest level in over a week. **Wednesday** was a quiet day and the market managed to add 0.58% to 6111.

However, **Thursday** opened with an immediate drop of 1.4% taking the market back to near 6000. This was due to increasing concerns over the pace of the recovery which had been highlighted in the Federal Reserve minutes. The FT close 1.61% lower at 6013.

On **Friday** figures showed that the national debt has increased to 100.5% of GDP due to the cost of fighting Covid-19. July retail sales volume figures also showed that consumers were spending 50% more on internet shopping that before the crisis. The FT100 fell below 6000 for the first time as sterling continued to strengthen. The market continues to underperform its peers and is looking very undervalued.

Inflation

Consumer price inflation jumped 1%, year on year, in July versus 0.6% in June. This was faster than the unchanged 0.6% expected and adds to household worries. The main drivers were clothing, petrol and household goods. With economic headwinds ahead and pent-up demand satisfied the upward trend is not expected to continue.

Flash August PMI

Companies reported growth that accelerated in August, but they are still cutting back on jobs. Activity expanded at the fastest rate since 2013. The service sector showed particularly good growth with a reading of 60.1 versus 57 in July. Manufacturing jumped from 55.3 to 53.3. Will this finally get the UK stock market moving upwards? However, other surveys have shown that unsecured lending is rising as incomes decline and unemployment rises. This is damaging consumer confidence for the future.

The United States

US Equities

On **Monday** JP Morgan upgraded their price targets for PayPal, Visa and IBM. Homebuilder sentiment jumped to a record high as demand continued to rise. Technology led the way as the Nasdaq hit a new record rising 1% to 11,129. The S&P rose 0.27% to 3381 just shy of the 3386 all-time high. Home working stocks were the biggest risers while banks fell in response to Warren Buffet selling the sector. The Vix moved down to 21.55. The S&P is up against key resistance levels and seasonal drops in volume. However, if there is a build-up in cyclical buying this should see the S&P break to new highs in a similar fashion to the Nasdaq.

On **Tuesday** Home Depot announced an excellent set of results as consumers took on more DIY projects during lockdown. Walmart also beat expectations as e-commerce sales surged. Housing "starts" came in at 1.496 million for July versus 1.240m expected. Building permits also surged confirming a very strong sector. The S&P opened higher hitting a new all-time high of 3394 helped by the weaker dollar. A remarkable recovery from the March lows led by the Californian based tech giants who have benefited from the lockdown situation. Amazon rose 4.1% as tech stocks led the Nasdaq 0.73% higher to yet another record. The S&P closed at 3389,0.23% higher, a fresh record closing higher by 5 points. The Dow lost 0.24% as banks continued to underperform. Retail stocks were also under pressure as Home depot gave no guidance and Walmart said that consumer spending had fallen since the initial boost from the stimulus cheques.

Wednesday started with some corporate deal news from J&J. Target, another retailer, reported huge earnings numbers. It was the Fed minutes that set the tone as they stated that "the ongoing public health crisis would weigh heavily on economic activity, employment and inflation. In the near term this was posing considerable risks to the economic outlook over the medium term." The Fed also cut their forecasts for employment and growth.

The record setting Nasdaq and S&P gave back 0.57% and 0.44% respectively and the Vix jumped up to 24.

Technology stocks got support on **Thursday** after chipmaker Nvidia announced better than expected earnings and strong current quarter revenue outlook. "Weekly jobless claims" rose to 1.1m versus 923m expected but "continuing claims" fell 638,000. These figures will add to fears that the recovery is running out of steam. The Nasdaq added 1.06% as it continued to plough higher into new record territory. Deutsche bank backed the tech and healthcare sectors to continue growing. The S&P and Dow were more muted adding 0.32% and 0.17% respectively. Market volume and breadth were poor and the Vix moved below 23.

Strong PMI numbers and a huge 24.7% rise in existing home sales in one month gave some support to a basically unchanged equity market on **Friday**.

US Bonds

The ten-year traded around 0.69% at the beginning of the week with no real news to push it in either direction.

Yields moved lower to 0.65%on **Wednesday** as the Fed flagged recovery fears.

Flash August PMI

Very strong numbers from both manufacturing and the service sectors. Both were in stagnation for July, but services jumped from 50 to

54.8 and manufacturing from 50.9 to 53.6. New orders and sales increased ass business picked up around the globe as well as domestically.

European Markets

The recent rise in Covid-19 in certain parts of Europe was not alarming investors in **Monday** morning with markets opening 0.25% higher. France had just posted its highest daily infection total since the lockdown eased. It appears the main drivers for markets are vaccine hopes and policy action. The German central bank predicted that there will be a rapid and broad-based recovery helped by increased consumer spending. The latest Covid-19 restrictions hit the Spanish index which fell 1.1% after Germany imposed mandatory tests on anyone arriving from Spain. The Dax added 0.31% to 12,941. Stocks opened lower on **Tuesday** as investors looked at the rising cases across Europe. The Dax lost 0.3%. On **Wednesday** Eurozone inflation figures showed a jump to 0.4%, year on year, for July versus 0.3% for June. The Dax added 0.74% to 12,977 in quiet trading. On **Thursday** Germany announced 1707 new cases, the highest daily toll since April, and the Dax dropped 1.3% on the open. ECB minutes warned that the stock market rally may have gotten ahead of itself and that coronavirus cases globally were still rising. The Dax lost 1.14% to close at 12,830. Damaged sentiment, after **Friday's** PMI numbers, was helped by news that Pfizer's vaccine was on track for a regulatory review by October. Most major European markets declined by 0.5% due to a lack of direction from Wall Street ahead of the weekend.

Flash August PMI

Composite figures from Germany and France came in at two-month lows and this pulled the regions reading down from 54.9 to 51.6. The service sector fell sharply while manufacturing remained steady. The rebound lost momentum during August highlighting the inherent weakness that remains especially as cases continue to spring up

Asian Markets

Monday started with the Nikkei falling 0.82% after data showed that the world's third largest economy shrank 28.8% in Q2 versus Q2 a year ago. The decline over the quarter was 7.8% which was not as bad as the drop of 9.5% in the US and 20.4% in the UK. Shanghai jumped 2.34% despite the delay in the US-China trade talks. According to Reuters the postponement was due to "scheduling conflicts" and the need to allow China more time to buy US exports. It was reported that the Central Bank was pumping further funds into the financial system.
Stocks slipped again in Japan on **Tuesday** with the Nikkei down 0.2% as Shanghai added 0.36% Markets across the region were mainly buoyed by Nancy Pelosi who called US politicians back to office and thus cutting short the summer recess. The markets around the world are pinning hopes on fresh stimulus for the US economy.
A reversal on **Wednesday** as the Nikkei rose 0.26% and Shanghai lost 1.24%. Export figures from Japan for July were not quite as dismal as expected as they fell 19.2% verses forecast 21% over the year. China launched an anti-dumping investigation into some wines imported from Australia.
Asian markets reacted to the Fed minutes and the Nikkei lost 1% and Shanghai 1.3% on **Thursday.** South Korea's market fell 3.8% as coronavirus cases rose for the third day in a row and the government warned it could lead to a national pandemic.
Asia ended on **Friday** with gains of 0.17% for the Nikkei and 0.5% for Shanghai as Wall Street and its technology pleased investors.

Commodities

Oil & Gold

Gold got off to a great start to the week on **Monday** as Warren Buffet took a stake in producer Barrick Gold. This pushed the commodity back to $2000. Brent rose to $45.13 as China announced it would be importing more US crude in August and September. This also helped counter rising tensions between the two countries.
A stronger dollar, lack of stimulus news from the Fed minutes and some profit taking saw gold back at $1950 on **Thursday**.
A stronger dollar on robust US PMI numbers saw gold slip to $1.931 on **Friday.**

Sterling & Dollar

On **Monday** investors continued to look at the Euro favourably versus the dollar. The rebound in growth especially in the major economies is seen as good whilst the way that the US has handled the pandemic is seen as negatively affecting the economy. The dollar slipped to $1.184 versus the Euro and sterling remained at $1.31.
On **Tuesday** the dollar index slipped to below 92.5 for the first time since May 2018 on expectations that policy will remain loose for quite some time due to implications of Covid-19 on the economic recovery. Sterling moved to $1.322, highest level since early March and the Euro to $1.194, highest level in two years.
Brexit talks started again on **Wednesday** and quickly ran into problems. This time over a UK request to grant truckers wide ranging access across Europe like €what they enjoyed when the country was in the EU. Sterling slipped to $1.32 and €1.107.
The dollar has been heavily

"shorted" and this position corrected slightly in late Wednesday and early **Thursday** trading after the Fed gave few clues to more stimulus. The dollar bears panicked, and the currency moved violently to \$1.309 versus sterling and \$1.841 versus the Euro. The dollar has been weakened recently by the amount of stimulus the US is using after mis-managing the pandemic. Strong retail sales lifted sterling to \$1.324 and €1.12 on **Friday.** However, EU negotiator Michel Barnier accused the British government of "wasting valuable time" and the pound dropped to \$1.3109.

Closing Thoughts

Markets appear to be increasingly nervous about what economies can do without causing a new surge in Covid-19 cases. However, investors also appear relaxed that the US government and other central banks will keep turning the stimulus taps on when needed. Current vaccine trials and the results from initial financial support are adding to the belief that the worst may be over in terms of economic danger.

Death rates appear to be falling and some recent studies suggest the virus is mutating to survive. The result is that it becomes more infectious but less deadly. This is probably a market positive over the medium term.

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